

Message Text

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ACTION EB-07

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E.O. 11652: N/A

TAGS: ECRE EMIN MU

SUBJECT: STATUS OF OMAN COPPER PROJECT

REF: (A) MUSCAT 1147 (NOTAL), (B) MUSCAT 64 (NOTAL), (C) MANAMA
1348 (NOTAL)

1. THE COPPER MINING PROJECT NEAGY OHAR IS PROGRESSING ONLY SLOWLY BECAUSE OF NUMEROUS OPERATING DIFFICULTIES AND SHORTAGE OF MONEY. PROSPECTION LTD., A CANADIAN FIRM CONDUCTING INITIAL PLANNING AND SURVEY WORK, HAS DISCOVERED UP TO 20 MILLION TONS OF PROVEN AND PROBABLE RESERVES OF RELATIVELY RICH ORE. THE COMPANY EXPECTS THAT ENOUGH COPPER ORE WILL BE DISCOVERED TO MAKE THE PROJECT VIABLE FOR UP TO 15 YEARS, ALTHOUGH THE DEPOSITS ARE SCATTERED AND THE MINES ARE SMALL (ON THE SAME SCALE AS CYPRUS). BOTH OMANGOV AND PROSPECTION SEE REFINING OPERATIONS IN OMAN AS ONLY WAY OF MAKING PROJECT VIABLE, SINCE SHIPPING CHARGES FOR ORE CONCENTRATE WOULD BE TOO HIGH.

2. BIGGEST OBSTACLE TO COPPER PROJECT IS LACK OF FINANCING. NEITHER OMANGOV (51 PERCENT OF EQUITY) QBR PROSPECTION
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LTD. AND MARSHALL OMAN (THE PRIVATE PARTNERS) HAVE SUFFICIENT

CAPITAL TO PAYEFOR HTE INITIAL DEVELOPMENT OF THE MINES, THE REFINING EQUIPMENT, AND A SMALL SMELTER OF ADVANCED FINNISH DESIGN. THESE FACILIWIES WILL HAVE A TOTAL COST OF WELL OVER \$150 MILLION. THE ABU DHABI DEVKLOPMENT FUND HAS SHOWN INTEREST IN THE PROJECT AND HAS CONTACTED BECHTEL ABOUT DOING THE CON-

STRUCTION WORK; THE OMANIS WOULD WELCOME A LOAN FROM ABU DHABI SINCE THERE WOULD BE FEW STRONGS AND NO EQUITY PARTICIPATION. HOWEVER, NEITHER BECHTEL NOR THE ABU DHABI FUND HAVE BEEN IN TOUCH WITH THE OMANGOV RECENTLY, AND IN ANY EVENT ABU DHABI FUND CONTRIBUTION WOULD BE LIMITED TO \$50 MILLION. THE ARAB MINING COMPANY HAS ALREADY SENT EXPERTSTO LOOK AT THE PROJECT, BUT ANY PARTICIPATION BY THE AMC WOULD CAUSE DILUTION OF THE EQUITY. UNTIL THE FINANCING DILEMMA IS SOLVED, THE PROJECT REMAINS STALLED WITH PARTIAL FUNDING AND WITHOUT A CONTRACTOR.

3. NEITHER THE OMANGOV NOR PROSPECTION/MARSHALL PARTICULARLY DESIRE PARTICIPATION BY A MAJOR AMERICAN OR EUROPEAN MINING COMPANY. THE PRIVATE PURTNERNS FEAR THAT A MAJOR COMPANY (SUCH AS NEWMONT MINING, WHIC HAS SHOWN INTEREST) WOULD DEMAND 25 PERCENT EQUITY AND OVERALL MANAGEMENT CONTROL, WHICH WOULD FORCE PROSPECTION OUT OF THE PICTURE; PROSPECTION MANAGEMENT IS (PERHAPS JUSTIFIABLY) RELUCTANT TO HAND OVERTHE PROJECT TO A LARGER FRIM AFTER IT HAS SPENT 3 HARD YEARS OF EXPLORATION AND PLANNING. OUR SOURCES INDICATE THAT SOME LEADING OFFICIALS SEEM TO FEEL THAT A MAJOR AMERICAN FIRM MIGHT EXERT UNDUE POLITICAL AS WELL AS COMMERCIAL INFLUENCE.

4. PROPECTION MANAGEMENT HAS NO ILLUSIONS THAT LIMITED AMOUNT OF ORE WILL BE WORKED FOR MORE THAN TEN TO FIFTEEN YEARS. EXPORT REVENUES FROM OMANI COPPER WON'T AMOUNT TO MUCH MORE THAN \$40-50 MILLION ANNUALLY EVEN IF COPPER PRICES RISE AGAIN. PROSPECTION HOPES THAT SMELTER WOULD BE USED AS A REGIONAL REFINING CENTER FOR MIDDLE EAST, WHICH WOULD SUBSTANTIALLY SAVE ON SHIPPING COSTS. OMANGOV, ALTERNATING BETWEEN UNWARRANTED OPTIMISM AND SOBER REALISM, SEES THE COPPER PROJECT LARGELY AS MFYNS OF CREATING EMPLOYMNHZ AND REGIONAL ECONOMIC DEVELOPMENT FOR SOHAR REGION.

5. COMMENT: FOR MANAMA: PROSPECTION MANAGEMENT HAS NO OBJECTIONS LIMITED OFFICIAL USE

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TO BROWN AND ROOT'S CONTACTING BECHTEL DIRECTLY. WE BELIEVE PROJECT WILL DRAG ALONG UNTIL PROSPECTION/MARSHALL BITE THE BULLET AND SURRENDER MUCH OF PRIVATE EQUITY TO A LAEGE FIRM HAVING THE RESOURCES TO DO THE PROJECT ADEQUATELY.
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